

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6494

BILL NUMBER: HB 1161

NOTE PREPARED: Dec 21, 2007

BILL AMENDED:

SUBJECT: Taxation of Military Pension Benefits or Salary.

FIRST AUTHOR: Rep. Ruppel

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ GENERAL
☒ DEDICATED
☐ FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill phases in over six years a 100% individual income tax deduction for all military pay, including retirement and survivor's benefits.

Effective Date: January 1, 2008 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new tax credit. The Department's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary:* The bill would reduce Adjusted Gross Income (AGI) Tax liabilities of certain individual taxpayers who receive military pay or retirement benefits, including surviving spouses. The potential revenue loss due to the increase in the deduction is summarized in the table below.

Fiscal Year	Maximum Deduction	Additional Revenue Loss
2010 and 2011	50%	\$9.65 M
2012 and 2013	75%	\$12.87 M
2014	100%	\$15.34 M

Background: PL 144-2007 increased the deduction from \$2,000 to \$5,000. Based on this change, the revenue loss in FY 2009 is estimated to be \$6.65 M.

On average, the number of eligible individuals for the deduction has increased 2.04% over the past four years. These individuals received \$1.02 B in payments during 2006. The total payments in Indiana increased, on average, 5.20% over the past four years.

The deduction increase begins in tax year 2009, thus, the fiscal impact of the phase-in will commence in FY 2010. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the increase in the deduction would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a minimal decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: Matt Torres, Department of Defense.

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